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IN THE

Supreme Court of the United States

OCTOBER TERM, 1970.

No. 1612

POLORON PRODUCTS, INC.,
Petitioner,

vs.

BELA SEATING COMPANY, INC.,
Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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THE GUNTHORP-WARREN PRINTING COMPANY, CHICAGO

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BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

Respondent, Bela Seating Company, Inc., respectfully submits this brief in opposition to the petition of Poloron Products, Inc. in which Poloron prays that this Honorable Court issue a writ of certiorari to review the judgment of the United States Court of Appeals for the Seventh Circuit entered herein on January 25, 1971.

OPINIONS BELOW.

The statements in the petition concerning the opinions below are correct.

JURISDICTION OF THIS COURT AND DISTRICT COURT.

The statement in the petition concerning the jurisdiction of this Court is correct.

The United States District Court for the Northern District of Illinois had jurisdiction of the complaint filed in that court under Title 28, United States Code, Section 1338(a) and Title 35, United States Code, Section 281.

QUESTIONS PRESENTED FOR REVIEW.

Petitioner's statement of the first question it seeks to have this Court review is adequate.

The statement of the second question petitioner seeks to have reviewed is argumentative in its inclusion of the terms "to discriminate" and "undifferentiable." A more accurate and non-argumentative statement of this question is:

> 2. Should a patent owner who manufactures and sells products covered by his patent, and has granted one non-exclusive license to manufacture and sell products covered by the patent, be compelled to grant *identical* non-exclusive licenses to *all others who ask for such licenses?*

CONSTITUTIONAL PROVISION AND STATUTES INVOLVED.

The applicable Constitutional provision and statutes are correctly set forth in the petition.

STATEMENT OF THE CASE.

The statement of the case included at pages 4 to 7 of the petition is correct as far as it goes. However, for completeness, certain additional findings of fact made by the District Court that bear on the questions raised by petitioner should be noted.

Thus, as to respondent's right to ask different royalty rates from different licensees, the trial court found that:

> "The evidence indicates that plaintiff is justified in seeking a much higher royalty rate than the 17½ cents royalty rate of the Hampden license" (Finding 101, Petition 16a).

And, with respect to respondent's right to limit its licenses to a specific form or forms of the invention, and to agree to forego manufacture itself of a specific form or forms of the invention, the trial court found:

> "The devices to which the respective restrictions apply are covered by the patent, and such restrictions are reasonable as steps adapted to maintain individuality between manufacturers with respect to the designs of their respective chairs" (Finding 103, Petition 17a).
>
> "All the restrictions in [plaintiff's] licenses relate to chairs covered by the patent in suit. Defendant has not shown in any way that any of the restrictions are outside of the scope of plaintiff's patent monopoly" (Finding 104, Petition 17a).

REASONS FOR REFUSING THE WRIT.

A. AS TO QUESTION 1.

There Is No Conflict Between Courts of Appeals of Different Circuits.

McCullough v. *Kammerer Corp.*, 166 F. 2d 759 (9 Cir., 1948), is cited by petitioner in an attempt to show a conflict between the Seventh and Ninth Circuits with respect to Question 1 (Petition 8-9, 12, 14). The facts of that case were, however, entirely different from the case at bar, for the vice there was that the license agreement attempted to prevent both licensor and licensee from dealing in devices—whether unpatented or covered by some other patent—that *were not covered by the licensed patent.*

Exclusive licenses—which exclude the licensor from doing business in any way with products or devices *covered by the licensed patent*—are of course perfectly proper, and are in wide use.* *Rail-Trailer Co.* v. *ACF Industries, Inc.*, 358 F. 2d 15, 16-17 (7 Cir., 1966). It was the attempt to limit the licensor and licensee with respect to devices *not covered by the licensed patent* that was stricken down in *McCullough.***

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*The *Report of the Attorney General's National Committee to Study the Antitrust Laws* (March 31, 1955), which is one of the authorities cited by petitioner itself (Petition 8), states that "an exclusive license by necessary implication includes a foreclosure of the patentee himself from the use of the invention" (*Report* 238). The Attorney General's Committee characterized such a restriction on an exclusive licensor as being "proper as reasonably ancillary to the rights the patentee has conveyed" (*ibid.*).

**This is precisely the interpretation given *McCullough* by the Attorney General's National Committee to Study the Antitrust Laws in the report cited by petitioner (*id.* 239).

Petitioner's first statement quoted from the *McCullough* opinion in support of its argument (near the bottom of page 8 of its petition) is quoted out of context, and fails to take into account the fact that when the Court of Appeals for the Ninth Circuit spoke of "competitive cutters" it is clear beyond any question from the context of the whole opinion that it meant pipe cutters *other than those covered by the licensed patent.**

The second quotation from the *McCullough* opinion, which is referred to twice by petitioner in support of its argument on this point (Petition 8, 12), is only a portion of a sentence and thus is also taken out of context. Even the complete sentence can be understood only if it is read in the light of the opinion in *Scott Paper Co.* v. *Marcalus Manufacturing Company,* 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945), from which it was derived. Read in that light, the sentence in question from the *McCullough* opinion is seen to mean simply that the public interest requires that *in the absence of a valid patent covering particular articles,* no person may by contract bind himself not to make, use or sell such articles, and hence an assignor cannot by contract "bind himself not to defend such creation of goods on the ground that the patent he has purported to license is invalid because anticipated by a valid but expired patent" (166 F. 2d at 762). (In this connection,

* Section 11 of the license agreement sought to prohibit the licensee from doing business with "any device which will be *in competition with* the device or devices covered by this license agreement." Section 12 sought to prohibit the licensor from doing business not only (1) with "the device or devices covered by this agreement" (in other words, the license was sole and exclusive), but also (2) with "devices which will come or be *in competition with* the device or devices covered by this agreement." Referring to Sections 11 and 12, the Court said:

> "These covenants extend the monopoly of the patent by preventing competition with the patent of any *other* pipe cutter, patented or unpatented. . . ."

(See 166 F. 2d at 760; emphasis supplied.)

see 326 U. S. at 255-257.) Since there is a valid patent in the instant case (a holding now accepted by petitioner), the *Marcalus* decision and the reliance thereon in *McCullough* have no relevance here.

The *McCullough* case, involving attempted restrictions on licensor and licensee with respect to competitive pipe cutters *not covered by the licensed patent,* was correctly decided by the Court of Appeals for the Ninth Circuit. Likewise, the instant case, involving restrictions relating only to folding tablet arm chairs *covered by the licensed patent,* was correctly decided by the Court of Appeals for the Seventh Circuit. Contrary to the assertion of petitioner, there is no conflict as to Question 1 between the Seventh and Ninth Circuits.

There Is No Conflict Between the Decision of the Court Below and Applicable Decisions of This Court.

There is also no conflict between the way the Court of Appeals for the Seventh Circuit decided Question 1 presented for review here, and the applicable decisions of this Honorable Court. Petitioner's arguments on this point have two basic fallacies.

a. Petitioner Relies Solely on Dicta, Without Reference to Actual Holdings.

Petitioner's arguments overlook altogether the actual holdings of the decisions on which those arguments are based. Petitioner does no more than quote dicta from a variety of cases, without any reference at all to the facts involved in those cases.

Stated another way, petitioner in its arguments fails to recognize that the decisional law of patent misuse has been developed by this Court and other courts on a case-by-case

basis. The development of the judicial doctrine of patent misuse has come through specific holdings in particular cases,* not from broadly stated general principles.

Petitioner refers dramatically to "this Court's broad pronouncements" (Petition 7), "this Court's generalized rule" (Petition 8), "the general rule of law established by this Court" (Petition 9), "public policy as enunciated by this Court" (Petition 9), and "this [Court's] sweeping policy" (Petition 10), as if such broadly phrased principles could decide specific cases. When the authorities relied on by petitioner are examined, it is seen that each case is wholly unlike the case at bar, can readily be distinguished on its facts, and is thus in no way inconsistent with the decision of the Court of Appeals below.

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* It is for this reason that 35 U. S. C. § 271(d), referred to briefly by petitioner (Petition 9, 10), is wholly irrelevant here. Unless a particular licensing practice is of a type that has previously been characterized as a patent misuse by court decision, there is no need to ask whether it may come under any exceptions that are established by statute.

Section 271(d) of the Patent Act was enacted because a certain license provision, that had been relied on by a patent owner in an effort to prevent what it considered to be contributory infringement, had been declared by the courts to create a patent misuse, *Mercoid Corporation* v. *Mid-Continent Investment Company*, 320 U. S. 661, 64 S. Ct. 268, 88 L. Ed. 376 (1944), and it was not clear from subsequent court decisions what the proper scope of that new misuse doctrine was. The Report of the House Committee on the Judiciary (82nd Congress, House Report No. 1923, May 12, 1952) concerning H.B. 7794—the bill that was enacted into the Patent Act of 1952—says of Sections 271(b) through (d):

> "Paragraphs (b), (c) and (d) relate to the subject referred to as contributory infringement. * * * Considerable doubt and confusion as to the scope of contributory infringement has resulted from a number of decisions of the courts in recent years. The purpose of this section is to codify in statutory form principles of contributory infringement and at the same time eliminate this doubt and confusion."

(P. J. Federico, "Commentary on the New Patent Act," 35 U. S. C. A. 1, 8, 51-52.)

The instant case does not, of course, involve any question of contributory infringement, and hence Section 271(d) is altogether irrelevant on the issue presented here.

In *Mercoid Corporation* v. *Mid-Continent Investment Company, supra* (Petition 7, 8, 10), for example, the vice was the unlawful conditioning of a sublicense grant on the purchase of an *unpatented* switch. In contrast, the restrictions complained of by petitioner here concern only products falling *within the scope of the patent.*

What this Court acted against in *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 62 S. Ct. 402, 86 L. Ed. 363 (1942) (Petition 6, 8) was a licensor's attempt to utilize the patent monopoly in a certain machine to drive *unpatented* competing goods (*i.e.*, unpatented materials for use with the patented machine) from the market through a tie-in requirement. No such fact is present here.

In *United States* v. *Univis Lens Co., Inc.*, 316 U. S. 241, 62 S. Ct. 1088, 86 L. Ed. 1408 (1942) (Petition 8, 12, 13), a patent owner tried to retain control over its goods after they had been sold. There is nothing like that fact in the instant case.

Petitioner seeks to stretch this Court's holdings in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964), and *Compco Corp.* v. *Day Brite Lighting, Inc.*, 376 U. S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964) to encompass the present case (Petition 13). But those cases did not involve licenses at all—merely third parties who copied devices that were protected neither by a valid patent nor copyright.

In *United States* v. *Associated Patents, Inc.*, 134 F. Supp. 74 (E. D. Mich., 1955), aff. per curiam *sub nom. Mac Investment Co.* v. *United States*, 350 U. S. 960, 76 S. Ct. 432, 100 L. Ed. 834 (1956) (Petition 15), one of the many violations was that the members of Associated Patents, Inc. "arrived at a general unwritten agreement not to compete in the manufacture of machine tools *irrespective of whether or not API patents were utilized*" (134 F. Supp.

at 80; emphasis supplied). In contrast to this, in the case at bar the license conditions concerning the design of the patented article are effective only as to chairs *covered by the claims of the patent in suit.*

b. Limitations on Form of Patented Invention Are Neither an "Extension" of the Patent Right Nor a Condition Imposed Outside the Patent Grant.

There is a second fallacy in petitioner's arguments on Question 1. The fact is that limitations on the form in which the licensor and licensee may produce the patented folding tablet arm chair are in any event neither an *extension* of the patent right nor conditions imposed *outside* the patent grant, as petitioner argues, but are instead merely a granting of a *partial* exclusive license.

A license, as even petitioner recognizes (Petition 3, 7, 13-14), is nothing but a waiver of the patentee's "right to exclude others from making, using, or selling the invention." 35 U. S. C. § 154. Thus, what respondent does in the licenses it enters into is to effect a *partial* waiver of its right to exclude others, or in other words grant a *partial* immunity from suit. It waives its patent rights as to folding tablet arm chairs of a certain design (*i.e.*, the licensee's design), but it does not waive its rights as to other chairs *which are covered by its patent and are of a different design.*

The acceptance by the licensee of a restriction on the form of the patented product it is licensed to make is but the "other side of the coin" from the licensor's agreement to a *partial* waiver, or granting of a *partial* immunity from suit. It follows, therefore, that respondent is not exercising an *"additional"* right, as petitioner has argued (Petition 13), in imposing such restrictions on its licensees. On the contrary, respondent is actually exercising *less than its full statutory right,* for it is excluding its licensees only

from making certain forms of the patented chair (*i.e.*, designs of others), while *permitting them to make other forms of the patented structure* (*i.e.*, their own designs). Thus, such restrictions on *licensees* are entirely proper under any reading of the decisions of this Court.

With regard to a *licensor*, this Court long ago settled in the affirmative the question as to whether a patent owner may validly restrict himself by limiting his freedom of action with respect to certain forms of his patented invention. This Court held in *E. Bement & Sons* v. *National Harrow Company*, 186 U. S. 70, 94, 46 L. Ed. 1058, 1070 (1902) that it is entirely proper for a licensor to agree not to grant to any other person except a particular licensee the right to manufacture or sell licensed articles "*of the peculiar style and construction then used or sold by the* [*licensee*]." As this Court pointed out in its *Bement* opinion, such an action by the patent owner was "nothing more in effect than an assignment or sale of the exclusive right [in today's terminology, an exclusive license] to manufacture and vend the article." (186 U. S. at 94; emphasis supplied.)

The restriction respondent has accepted here is actually of lesser scope than the restriction in *Bement*, since it must be assumed that the exclusion of a patentee's manufacturing capacity (as here) with respect to a certain design of chair would have a smaller impact than the exclusion of all the manufacturing capacities of a number of potential licensees (as in *Bement*) with respect to that same design. And of course the restriction on respondent here in any given *partial* exclusive license is of very much smaller scope than would have been the case had it granted a *full* exclusive license to a single licensee.

Since the license restrictions on licensor and its licensees about which petitioner complains cannot properly be considered to be either extensions of the patent right or conditions outside the grant of the patent, the decision of the

Court of Appeals below as to Question 1 was clearly *not* in conflict with any cases previously decided by this Court, whether one looks at the actual holdings or at dicta in those cases.

B. AS TO QUESTION 2.

There Is No Conflict Between Courts of Appeals of Different Circuits.

In support of its argument as to Question 2, petitioner asserts that the decision of the Court of Appeals for the Seventh Circuit in the instant case is in "direct conflict" with the decision of the Court of Appeals for the Fifth Circuit in *La Peyre* v. *Federal Trade Commission*, 366 F. 2d 117 (1966) (Petition 16-18). This assertion is incorrect.

The *La Peyre* case involved a planned program of discriminatory leases of shrimp peeling machinery, with different rental rates depending solely on territory. That program tended to cripple and destroy a major geographical segment of the shrimp peeling industry, since use of the patented machinery became industrywide because it was necessary to have that particular machinery in order to stay in the shrimp peeling business (366 F. 2d at 119-120). The decision in that case is obviously inapplicable to the present case, where there is no geographical discrimination of any kind, and it is not essential that a chair manufacturer be able to make plaintiff's patented chair (Finding 111, Petition 19a).*

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* *Laitram Corporation* v. *King Crab, Inc.*, 244 F. Supp. 9 (1965) is a case decided by the *District* Court of Alaska, but it is nevertheless cited by petitioner (Petition 16-17) for the apparent purpose of establishing the existence of a conflict between decisions of various Courts of Appeals. Even if it were pertinent, the *Laitram* case arose on the same set of facts as the *La Peyre* case, and must thus be distinguished from the case at bar on the same basis (244 F. Supp. at 17).

Petitioner also cites *Allied Research Products, Inc.* v. *Heatbath*

Since the *La Peyre* decision and the decision of the Court of Appeals below are clearly distinguishable on their facts, there is no conflict between the Fifth and Seventh Circuits on Question 2.

There Is No Conflict Between the Decision of the Court Below and Applicable Decisions of This Court.

Petitioner's argument that the decision of the Court of Appeals for the Seventh Circuit on Question 2 concerning which it seeks review was in conflict with the applicable decisions of this Court is in error in two respects.

a. Petitioner Again Relies Solely on Dicta, Without Reference to the Actual Holdings of the Cases It Cites.

Again, as with Question 1, petitioner does no more than quote dicta from several cases, without any attention whatsoever to the actual facts involved in the cases it cites.

Once more petitioner seems to feel it has established some kind of "conflict" with the decisions of this Court simply by referring to certain "general views" about competition (Petition 17), "general holdings" concerning competition (Petition 18), and a "general view" on "discrimination" and "restrictive conditions" (Petition 18) which are supposed to be held by this Court, while ignoring the troublesome detail that every case it cites is completely different from the case at bar on its facts.

The case of *United States* v. *Paramount Pictures, Inc.*, 334 U. S. 131, 68 S. Ct. 915, 92 L. Ed. 1260 (1948) (Petition 18), for example, concerns industrywide *price fixing* and is therefore completely inapplicable to the present case.

Corporation, 300 F. Supp. 656 (N. D. Ill., 1969), which was decided by another District Court Judge within the Seventh Circuit. But the refusal to follow a prior District Court decision on the part of the Court of Appeals of the very Circuit in which the District Court is located obviously does not indicate a conflict between Circuits that suggests the necessity of a review by this Court.

Petitioner apparently argues that in *Hartford-Empire Co.* v. *United States,* 323 U. S. 386, 65 S. Ct. 373, 89 L. Ed. 322 (1945), this Court prohibited discrimination between licensees in any and all situations (Petition 18). Such an interpretation of that case is wholly erroneous. In *Hartford-Empire* there was a patent pool (including over 800 cross-licensed patents) that effectually controlled the glassware industry and was used, among other things, for the allotting of production and maintenance of prices in that industry. (These antitrust violations are summarized at 323 U. S. 386, 400, 89 L. Ed. 322, 355.) Because of these very serious antitrust violations, compulsory licensing of certain patents by the defendants was required.* Such a fact situation is of course altogether different from the facts of the instant case.

Petitioner relies also upon the case of *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.,* 243 U. S. 502, 61 L. Ed. 871 (1917) (Petition 18-19), but that case is a classic case of patent misuse and is wholly irrelevant here. The patent in that case covered a motion picture film feeder which was made and sold by the plaintiff's licensee. Under the terms of the license, the licensee was required to attach plates to the device, which plates contained the conditions that the purchaser buy the machine for a certain price and then pay variable royalties thereafter. The purchaser was also required to use only films containing the invention of another of the plaintiff's patents in connection with the machine.

None of the cases just discussed actually stands for the proposition for which it is cited by petitioner.

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* A compulsory licensing provision is a requirement commonly imposed *after* a serious antitrust violation is found in a case involving misuse of patents, as for example in *United States* v. *National Lead Company,* 332 U. S. 319, 335-351, 67 S. Ct. 1634, 91 L. Ed. 2077, 2093-2101 (1947).

b. It Is Petitioner's Position, Not the Decision of the Court of Appeals Below, That Is in Conflict with Decisions of This Court.

The fact is that it is not the decision of the Court of Appeals in the present case that conflicts with any decisions of this Court, but petitioner's position itself that is in conflict with this Court's decisions.

If the law were as petitioner argues, a patent owner who mistakenly granted a license at too low a royalty rate early in the life of his patent, as respondent did here, would be *compelled* to grant later licenses at the same low rate. Similarly, a patent owner who deliberately granted a low royalty rate to his first licensee simply to get his licensing program "off the ground" would be *compelled* to grant later licenses at the same low rate even after he had succeeded in establishing the true value of a license under his patent for the particular industry to which it related.

For a patent owner to be *compelled* to grant a license at a lower royalty rate than he can get under all the circumstances of the market place is, under any ordinary meaning of the English language, a form of *compulsory* licensing.* Yet even petitioner would have to agree that the basic concept of compulsory licensing** has never been made a part of the patent system of this country. Thus, this Court said in *Hartford-Empire Co.* v. *United States, supra,* at 364:

> "Congress was asked as early as 1877, and frequently since, to adopt a system of compulsory licensing of patents. *It has failed to enact these proposals into law.*" (Emphasis supplied.)

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* The District Court so found. Finding 102, Petition 17a.

** That is, compulsory licensing *before* any antitrust violations or patent misuse have been found.

The granting of a non-exclusive license to one person and not to another, even without justification and reason, is an entirely conventional and legal practice that is wholly consistent with the scope of the patent monopoly. It has been so held by this Court and many other courts as well. *United States* v. *Huck Manufacturing Company,* 227 F. Supp. 791, 800, 803, 804 (E. D., Mich., 1964), aff. per curiam 382 U. S. 197, 15 L. Ed. 2d 268 (1965); *Extractol Process* v. *Hiram Walker & Sons,* 153 F. 2d 264, 268 (7 Cir., 1946); *American Equipment Co.* v. *Tuthill Building Material Co.,* 69 F. 2d 406, 408 (7 Cir., 1934); *Radio Corporation of America* v. *Hygrade Sylvania Corporation,* 10 F. Supp. 879, 882-883 (D. N. J., 1934). The logic of such a holding by this Court compels the conclusion that a fortiori a patent owner is not required to grant licenses to all comers at equal rates and terms, for to be denied a license altogether when others have been granted one is a greater denial than simply to be required to pay a higher royalty rate.

For the reasons given, there is no conflict whatsoever between the decision rendered by the Court of Appeals for the Seventh Circuit in the instant case and the applicable decisions of this Honorable Court.

CONCLUSION.

It has been shown with respect to both questions which petitioner seeks to have this Court review that there is neither conflict between decisions of different Circuits, nor conflict between the decision below and applicable decisions of this Court.

Indeed, it has been shown with respect to both Question 1 and Question 2 submitted by petitioner for review that, contrary to the assertions of petitioner, the decision of the

Court of Appeals for the Seventh Circuit in this case is entirely consistent with all applicable decisions of this Court.

For these reasons, the petition for issuance of a writ of certiorari to review the judgment entered herein by the United States Court of Appeals for the Seventh Circuit should be denied.

Respectfully submitted,

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